

MT LEGISLATIVE HISTORY

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Chapter 494 1987

Bill (H) 300 S _____

Original bill & hist. ____C

H. Committee on State Administration

S. Committee on State Administration

Hearing Date(s) Feb 13 ✓C

Hearing Date(s) Mar 18 ✓C

Feb 17 ✓C

Mar 20 ✓C

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____C

____C

____C

Date Out Feb 17 ✓C

Mar 20 ✓C

Did this bill originate in an interim committee? ____Yes ____No

Committee _____

Report _____

MINUTES OF THE MEETING
STATE ADMINISTRATION COMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

February 13, 1987

The meeting of the State Administration Committee was called to order by Chairman Sales on February 13, 1987, at 9:00 a.m. in Room 437 of the State Capitol.

ROLL CALL: Rep. O'Connell was excused. All other committee members were present.

CONSIDERATION OF HOUSE BILL NO. 300: Rep. Lory, House District #59 and sponsor of the bill, stated the bill was being introduced at the request of the Board of Regents. It is a bill that gives an optional retirement system to members of the university system. This bill in no way affects the Teachers' Retirement System.

PROPOSERS: Carroll Kraus, Commissioner of Higher Education, stated this bill is important to the university system. He distributed a fact sheet to all committee members (Exhibit #1) and stated HB 300 has received a great deal of study over the last few years in order to accommodate the concerns of the TRD and to make the state of Montana a more attractive area for recruitment of teachers. Montana is not competitive from a salary standpoint; Montana teachers receive approximately \$2,300 per year less than those in the surrounding states. Portability of retirement benefits is important because it supports mobility between institutions of higher learning, and Montana students benefit from the interchange of ideas stimulated by the exchange of teachers from other institutions of higher learning.

Bruce Carpenter, President of Eastern Montana College, stated his agreement with Carroll Kraus' testimony. There is more and more difficulty in recruiting faculty to Montana. Compared to three years ago, they are receiving about 1/3 of the applications for available teaching positions. HB 300 will add flexibility in attracting faculty members to the Montana campuses which is important for the continuation of quality education in Montana. It will not have a negative impact on those already here.

Jim Koch, President, University of Montana, stated the provisions of HB 300 will not impose any significant financial penalty or liability for current or future members of TRS. The bill will enable faculty members to direct their pension contributions either to fixed income or to equities.

In times of a difficult economy, this is important. HB 300 will also provide faculty members with a benefit that will not cost the state much of anything.

Les Loble, a Helena attorney and representing TIAA-CREF, stated TIAA is a legal reserve life insurance and annuity company founded in 1918 by the Carnegie Corporation and the Carnegie Foundation for the Advancement of Teaching. It invests contributions in a broadly diversified group of bonds, mortgages and direct loans to business and industry. CREF, established in 1952, is a broadly diversified common stock fund and invests contributions in the common stock of companies in a wide range of industries. Over 3,700 educational institutions, including about 550 publicly supported colleges and universities in 35 states, provide participation in the TIAA-CREF retirement plan. TIAA-CREF has about one million participants and combined assets in excess of \$55 billion. TIAA has invested approximately \$36 million in Montana. He submitted written testimony (Exhibit #2) and stated an optional retirement program should be made available as an alternative to TRS for faculty members and administrators which will round out the offerings of the university system. He submitted amendments to the bill (Exhibit #3). These amendments are submitted to address the concerns of Teachers' Retirement Board regarding the TRS unfunded liability.

Terry Minnow, representing the Montana Federation of Teachers and the Montana Federation of State Employees, expressed support of HB 300. Although this bill will affect very few of the current faculty of the university system, it will affect future members. This bill is an attempt to make Montana more competitive in its recruitment of new faculty. The impact of TRS will not be major. HB 300 will play a major role in the quality of education in Montana in the future. She urged a do pass recommendation.

Coleen Holmes, a Montana College Coalition lobbyist, stated HB 300 will benefit the institutions, the university system, and the students.

Matthew Teague stated support for the bill and feels that anything that can be done for the professors during these difficult economic times will be appreciated.

OPPONENTS: Dave Senn, Administrator of the Teachers' Retirement Division, submitted written testimony outlining the Teachers' Retirement Board's opposition to HB 300 (Exhibit #4). He asked the committee to consider the possible long-range impact as well as the short-term solution offered by this bill. He urged a do not pass.

Eric Fever, Montana Education Association, stated HB 300 is not consistent with the mood of the times. We are looking at no salary increases for most teachers in the state. We are looking at reductions in force, particularly for those with least seniority. We are looking at the governor's proposal to tax teachers' retirement benefits for the first time. The legislature is looking at many bills that, in one way or another, attempt to shrink the benefits of the participants. There are many retirement systems in Montana. HB 300 proposes an additional retirement system that would be an adjunct to or a separation from an existing retirement system, the Teachers' Retirement System. We would be creating another retirement system which would be a competitor to the Teachers' Retirement System. He would not oppose HB 300 if the committee could assure him of three factors: 1) that this bill would have no impact on the unfunded liability for the remaining TRS participants; 2) that this bill would create no increase in employer or employee contributions within the system, and 3) that it would have no injurious effect on the future retirement benefit increases that participants of the TRS might place before the legislature at a future time, such as a long-term goal of all educators in the TRS to receive a cost-of-living increase for retirees.

DISCUSSION OF HOUSE BILL NO. 300: Rep. Cody asked Mr. Senn when the last actuarial study was done by the TRS. He replied "July 1, 1985". Rep. Sales asked Mr. Senn to comment on the amendments (Exhibit #3) as they relate to the fiscal note. Mr. Senn replied that the amendments do what Les Loble intended them to do. Rep. Fritz referred the committee to Section 12(2) of the amendments to HB 300 which states "if the actuarial study determines that the percentage contribution established in Section 6 (2)(b) has an adverse effect on the amortization of the unfunded liability, then the board of regents shall pay an additional sum over a period of 40 years to rectify the adverse effect." Rep. Fritz then asked Mr. Krause where that "additional sum" would come from, and he replied the funds for that purpose would come out of the regular personal services budget of the university system unit. Rep. Jenkins asked if that money was employee or employer contribution funds, and Mr. Krause stated it was part of the employment benefits appropriation.

Rep. Lory closed discussion on HB 300. The committee recessed at 9:50 a.m. and reconvened to hear HB 38.

CONSIDERATION OF HOUSE BILL NO. 38: Rep. Pavlovich, House District #70 and sponsor of the bill, stated that with less than 8,100,000 people in Montana, 106,000 are veterans. He feels the veterans are owed a debt by all of us. When these

DAILY ROLL CALL

State Administration

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date

2/13/87

NAME	PRESENT	ABSENT	EXCUSED
Walt Sales	✓		
John Phillips	✓		
Bud Campbell	✓		
Dorothy Cody	✓		
Duane Compton	✓		
Gene DeMars	✓		
Harry Fritz	✓		
Harriet Hayne	✓		
Gay Holliday	✓		
Loren Jenkins	✓		
Janet Moore	✓		
Richard Nelson	✓		
Helen O'Connell			
Mary Lou Peterson	✓		
Paul Pistoria	✓		
Rande Roth	✓		
Tonia Stratford	✓		
Timothy Whalen	✓		

H.B. 300

FACT SHEET OPTIONAL RETIREMENT PLAN

1. TIAA-CREF was founded by the Carnegie Foundation in 1918 as a nonprofit organization to provide retirement options for faculty at colleges, universities and certain other non-profit educational institutions.
2. The TIAA-CREF system has been designed as the major pension system of higher education in the United States with the key to the system being a fully funded contract which is vested immediately for the teachers and is portable. This enables the teacher to move freely during his/her career from one institution to another (state to state--private institution to public), without the teacher having to forfeit his/her accrued pension rights.
3. Approximately 3,700 educational institutions (public and private) are participants, 550 of these are public colleges and universities in 35 states. In Montana, Carroll College, College of Great Falls, and Rocky Mountain College are participants.
4. Assets of TIAA-CREF are over 55 billion dollars.
5. The Montana universities and colleges must compete nationally with other institutions of higher learning for faculty and staff. The competition can be severe and often involves recruiting both teachers in the beginning of their careers or experienced educators making mid-career changes. Frequently, a critical element affecting a person's decision to accept a position is the availability of a retirement plan that is compatible with the program that they have joined at some other college or university. Portability of benefits is important because it supports mobility between institutions of higher learning. Academic careers often involve service at several institutions. As careers advance at successive institutions, scholarship, experience and talents are developed and refined. Montana students benefit from the interchange of ideas stimulated by the exchange of teachers from other institutions of higher learning.
6. TIAA's present investments in the State of Montana total \$36,000,000.

NAME: LESTER H. LOBLE, II

2/13/87
300

DATE: FEB 13, 1987

ADDRESS: P O BOX 176 HELENA

PHONE: 442-0070

REPRESENTING WHOM? TIAA/CREF

APPEARING ON WHICH PROPOSAL: HB 300

DO YOU: SUPPORT? AMEND? XX OPPOSE?

COMMENTS: Attached

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

THE ESSENTIAL FEATURES OF A
TIAA-CREF OPTIONAL RETIREMENT PLAN

I. Introduction. Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are nonprofit, companion organizations whose services are limited to colleges, universities, educational and research institutions.

TIAA is a legal reserve life insurance and annuity company founded in 1918 by the Carnegie Corporation and the Carnegie Foundation for the Advancement of Teaching. TIAA invests contributions in a broadly diversified group of bonds, mortgages and direct loans to business and industry.

CREF, established in 1952, is a broadly diversified common stock fund. CREF invests contributions in the common stock of companies in a wide range of industries.

Today, over 3,700 educational institutions, including about 550 publicly supported colleges and universities in 35 states, provide participation in the TIAA-CREF retirement plan. Here in Montana, Rocky Mountain College, The College of Great Falls, and Carroll College are participating institutions. TIAA-CREF has about one million participants and combined assets in excess of 55 billion dollars. TIAA has invested 36 million dollars in Montana.

II. Type of Retirement Plan. This is a "defined contribution" plan under which employer contributions and employee contributions are defined as a percentage of basic earnings. TIAA-CREF defined contribution retirement plans are funded through individual TIAA and/or CREF regular annuity contracts owned by each participant.

The amount of a participant's retirement income depends upon the size of the accumulation in the participant's account, the income option elected, and mortality factors applicable to the participant. Thus, the State need never be concerned about the possibility of any future unfunded liability.

The annuities are fully funded and provide full immediate vesting of all contributions in the participant. The accrued benefit at any time for the participant is the current value of the annuity accumulation. They are fully portable from state to state.

If a participant dies before annuity income begins, the full current value of the participant's annuities, attributable to both employer and employee contributions, is payable to the beneficiary he or she has named.

III. Expense Charges for TIAA and CREF Regular Annuities.

TIAA and CREF employ no sales agents. No "load" is deducted from premiums paid to TIAA-CREF. Operating expenses incurred for individual annuities are deducted from investment earnings and are currently about 1/4 of 1% of annuity assets in TIAA and CREF.

IV. The Need. Montana's public colleges and universities must compete nationally with private and public institutions of higher education for faculty and professional staff. This competition involves recruiting educators either beginning their careers or making mid-career changes. Frequently, a critical element affecting a person's decision on whether to accept a position is the retirement plan: is there one which provides for

full and immediate vesting and complete portability of benefits? Currently, Montana's does not.

Portability of benefits is important. Academic mobility is a fact of life. As careers advance at successive institutions, scholarship, experience and talents are developed and refined. Faculty, and of course their students, benefit from the interchange of ideas stimulated by the movement of academic personnel.

The Teachers Retirement System of Montana (TRS) compares favorably with the public employees' retirement systems of other states and provides an adequate level of retirement income for employees who remain covered throughout their working careers. However, for those who don't, certain features can lessen the attractiveness of employment. In particular, vesting is delayed for 5 years, and even if vesting is achieved there is no portability of vested benefits for individuals who leave. Delayed vesting and the absence of portability hamper recruitment efforts. Montana competes with other states which do have TIAA-CREF plans that vest immediately and are portable.

To alleviate the competitive problem, which will in turn improve the overall academic quality of Montana's public colleges and universities, a TIAA-CREF optional retirement program (ORP) should be made available as an alternative to TRS for faculty members and administrators. This will round out the offerings of the university system.

Please give a DO PASS recommendation to HB 300.

Number of TRS participants	15,000
Number of TRS participants who are University employees (12.9% of TRS total)	1940*
Number of eligible employees electing ORP participation (assume 15% of current employees who are eligible for ORP elect it)	291
Payroll of employees electing ORP assumes \$24,000 average salary; those electing ORP will tend to be newer, lower salaried employees. The average salary of all University employees is \$28,500*	\$6,984,000
Loss in unfunded liability contributions = 1 1/3% of payroll {Employer contributes 2.956% to TIAA-CREF (10% of salary less employee contribution of 7.044% = 2.956%). Unfunded liability contributions = 7.428% - 2.956% = 4.472%. Loss in unfunded liability contributions = 5.8%- 4.472% = 1.328% (approximately 1 1/3%)}	\$92,748**

- Note Balancing Factors:
- 1) Current employees who elect ORP and who are not vested forfeit rights to accrued TRS benefits. Funds supporting these benefits revert to TRS.
 - 2) Current employees who elect ORP and who are vested have TRS benefits based on current salary rather than salary at retirement, representing a savings to TRS.

*Figures taken from the November, 1986 Montana University System payroll.

**This amount represents .0018 (about 2/10 of 1%) of the total current annual TRS premium of \$50,899,000.

New Employees

1,940 employees in eligible group x 10% assumed turnover*	194 employees
Assume \$22,000 average salary for new employees	\$4,268,000 payroll
Assume 80% of new employees elect ORP	\$3,414,400 payroll
Assume loss of 1.328% of unfunded liability contributions	\$ 45,343**

Note Balancing Factor: New employees electing ORP cannot
increase unfunded liability by purchase
of military service credit, etc.

*Montana State University has experienced a 10% annual turnover rate
for each of the last 6 years and it is assumed this is typical of the
University System as a whole.

**This amount represents .0009 (about 1/10 of 1%) of the total current
annual TRS premium of \$50,899,000.

1. Page 2, line 2.

Following: "chapter 4"

Insert: "as it exists at the effective date of [this act]"

2. Page 5, line 7.

Following: line 7

Insert:

"equal to the greater of

"(i) the employer contribution to the teachers retirement system not used to amortize past service unfunded liability as that unfunded liability is limited by [section 12], or

"(ii) an amount that, when added to the participant's contribution, is equal to 10% of the participant's earned compensation; and"

3. Page 5.

Strike: lines 8 and 9.

4. Page 6, line 6.

Strike: "a"

Insert: "any"

5. Page 14, line 2.

Insert a new section 12

NEW SECTION. Section 12. Actuarial study.

(1) As a part of its regular biennial actuarial study beginning June 30, 1991, the teachers retirement system board shall make an actuarial study which shall include a determination of the past service unfunded liability of active, inactive, and retired members of the Montana university system. The study shall determine the effect on the amortization of the unfunded liability of the teachers retirement system caused by participants selecting the optional retirement program.

(2) If the actuarial study determines that the percentage contribution established in [section 6(2)(b)] has an adverse effect on the amortization of the unfunded liability, then the board of regents shall pay an additional sum over a period of 40 years to rectify the adverse effect.

(3) Changes in the teachers retirement system after the effective date of [this act] which create additional unfunded liabilities may not be considered in the actuarial study and the board of regents may not be required to pay any additional sum on that account except to the extent that those changes benefit members of the teachers retirement system who are employees of the Montana university system.

(4) If the actuarial study determines that the board of regents is paying an amount in excess of that needed to amortize the unfunded liability, the teachers retirement board shall credit the board of regents for the excess payments. The board of regents shall credit the active participants in the optional retirement plan with the excess payments.

RENUMBER: Subsequent sections

House Bill 300

TESTIMONY

prepared by
David L. Senn, Administrator
Teachers' Retirement Division

The Teachers' Retirement Board is opposed to House Bill 300 for the following reasons:

1. Under the optional retirement program only those members who find it to there financial advantage will tend to join the Teachers' Retirement System. Other employees, such as younger members and those anticipating termination within five years, will tend to join the optional retirement plan. The result will be a financial burden to the retirement system.
2. If this optional retirement plan were to be offered to all 15,000 members of the Teachers' Retirement System, the system could not support the financial burden unless funding were increased substantially.
3. The university system's portion of the current unfunded liabilities must be funded. This would require that the university contribute an amount of 5.8% for all members who are eligible for the Teachers' Retirement System regardless of whether they elect participation in the optional retirement program. This legislation contains a funding proposal of 4.472% of salary, instead of 5.8%.

The Boards concern is not whether another plan is permitted but rather, that the university system be required to continue funding their portion of the unfunded liabilities and that the members of the university system not be given an opportunity to select against the Teachers' Retirement System. If they are allowed to choose, there are many opportunities for selection against the Montana Teachers' Retirement System which will increase the overall cost to the remaining members.

In closing, the Teachers' Retirement Board ask that you consider the possible long-range impact as well as the short-term solution offered by this bill. They ask that you do not make changes which could risk the future funding of the Teachers' Retirement System and that this bill be given a do not pass recommendation.

DLS:dlh

VISITORS' REGISTER

STATE ADMINISTRATION

COMMITTEE

BILL NO. 360DATE 2/13/87SPONSOR Long

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
James W. Koch	Univ. of Montana	X	
Earl Long	Dist-SS	✓	
Carol Krause	Comm of H. CD.	✓	
HUGH BERNER	TIME REF	X	
James - J. J. J. J. J.	SMC	X	
Wm. H. H.	Univ. of Montana	X	
James W. Koch	Univ. of Montana	X	
MATTHEW THE	ASS. STUDENT UGM	X	
PETER MINEN	MTT	X	
David S.	TR		X
Eric Fluor	MEA		X

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

DISPOSITION OF HOUSE BILL NO. 300: Rep. Fritz moved a DO PASS AS AMENDED, seconded by Rep. O'Connell. The motion carried 14-4, with Reps. Whalen, Peterson, Nelson, and Jenkins voting no.

Executive action adjourned at 9:00 a.m., and the committee began its regularly scheduled meeting.

CONSIDERATION OF HOUSE BILL NO. 706: Rep. Dave Brown, House District # 72 and sponsor of the bill, stated that it is reasonable that the public know when various gubernatorial appointments will be made to certain councils, boards, commissions, and committees. He distributed an amendment adding a public notice requirement (Exhibit # 2, on file). Rep. Brown urged committee support for the bill.

PROPOSERS: Jim Jensen, Montana Environmental Information Center, stated that the Governor has a difficult time finding highly qualified people to fill vacancies. The bill will allow people with specialized interest to better serve in voluntary positions and facilitate the Governor's appointment process at no cost.

Shiela Kates, former member of the State Library Commission, stated that it is essential for Montana's libraries to have strong leadership, and the bill will enable interested and concerned citizens to be aware when appointments will be made.

Lloyd Erickson, Citizen Representation Program of the American Association of Retired Persons (AARP), stated he supports the bill because qualified senior citizens will have an opportunity to volunteer expertise particularly in the areas of aging to various boards. Mr. Erickson made the following suggestions: 1) that the word "shall" be substituted for "may" making the notice mandatory (page 2, line 9); 2) that notices be published with sufficient lead-time to enable responses; and 3) language be inserted to publish either an annual or semi-annual listing reflecting the terms of appointments already on file with the Secretary of State (page 2, beginning on line 10).

Riley Johnson, representing the National Federation of Independent Businesses as well as the Montana Home Builders Association (MHBA), supported the bill stating that interested citizens need to be represented on boards and commissions. The MHBA has been trying to assemble a similar list for the past six months, but the information is not centrally available. For example, the Governor's office has a listing of appointments to be made until January 1988, and the library has a publication available for \$250, but it is not guaranteed to be up-to-date.

OPPOSERS: None

DAILY ROLL CALL

State Administration

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date

2/17/87

NAME	PRESENT	ABSENT	EXCUSED
Walt Sales	✓		
John Phillips	✓		
Bud Campbell	✓		
Dorothy Cody			
Duane Compton	✓		
Gene DeMars	✓		
Harry Fritz	✓		
Harriet Hayne	✓		
Gay Holliday	✓		
Loren Jenkins	✓		
Janet Moore	✓		
Richard Nelson	✓		
Helen O'Connell	✓		
Mary Lou Peterson	✓		
Paul Pistoria	✓		
Rande Roth	✓		
Tonia Stratford	✓		
Timothy Whalen	✓		

STANDING COMMITTEE REPORT

February 17 19 97

STATE ADMINISTRATION

Mr. Speaker: We, the committee on

report HB 300

☒ do pass
☐ do not pass

☐ be concurred in
☐ be not concurred in

☒ as amended
☐ statement of intent attached

Chairman

Authorize optional retirement program for certain univ. system faculty and staff

1. Page 1, line 16.

Strike: "8"

Insert: "9"

2. Page 1, line 25.

Strike: "8"

Insert: "9"

3. Page 5, line 7.

Following: "amount"

Insert: "equal to the greater of:

(i) the employer contribution to the teachers' retirement system not used to amortize past service unfunded liability as that unfunded liability is limited by [section 9]; or

(ii) an amount"

4. Page 6, line 6.

Strike: "a"

Insert: "any"

5. Page 6.

Following: line 12

Insert: NEW SECTION. Section 9. Actuarial evaluation to determine unfunded liability. (1) Beginning June 30, 1991, the biennial actuarial valuation of the teachers' retirement system must include a determination of the past service unfunded liability of active, inactive, and retired members of the Montana university system. The valuation must determine the effect on the amortization of the unfunded liability of the teachers' retirement system caused by persons electing to participate in the optional retirement program.

(2) If the valuation determines that the percentage contribution established in [section 6(2)(b)] has an adverse effect on the amortization of the unfunded liability, then the board of regents shall pay an additional sum over a period of 40 years to rectify the adverse effect.

(3) Changes in the teachers' retirement system occurring after July 1, 1987, that create additional unfunded liabilities may not be considered in the valuation, and the board of regents may not be required to pay any additional sum on that account except to the extent that those changes benefit members of the teachers' retirement system who are employees of the Montana university system.

(4) If the valuation determines that the board of regents is paying an amount in excess of that needed to amortize the unfunded liability, the teachers' retirement board shall credit the board of regents for the excess payments. The board of regents shall credit the active participants in the optional retirement program with the excess payments."

Renumber: subsequent sections

6. Page 12, line 5.

Strike: "5"

Insert: "9"

7. Page 13, line 1.

Strike: "5"

Insert: "9"

TJS

MINUTES OF THE MEETING
STATE ADMINISTRATION COMMITTEE
MONTANA STATE SENATE

March 18, 1987

The thirty-ninth meeting of the State Administration Committee was called to order by Chairman Jack Haffey on March 18, 1987 at 10:05 a.m. in Room 331 of the State Capitol.

ROLL CALL: All committee members were present.

The hearing was opened on House Bill 300.

CONSIDERATION OF HOUSE BILL 300: Representative Earl Lory, House District 59, Missoula, was sponsor for this bill entitled, "AN ACT AUTHORIZING AN OPTIONAL RETIREMENT PROGRAM FOR CERTAIN ADMINISTRATIVE OFFICERS AND MEMBERS OF THE INSTRUCTIONAL AND SCIENTIFIC STAFF OF THE MONTANA UNIVERSITY SYSTEM; AMENDING SECTIONS 15-30-111, 19-4-208, AND 19-4-302, MCA; AND PROVIDING AN EFFECTIVE DATE." It was at the request of the Board of Regents he stated. He said this bill would offer an optional retirement system to some members of the University system in lieu of the Teacher's Retirement System or TRS. The reason for the bill was to help with the recruitment of faculty into the system. He noted that currently more than 3700 colleges and universities across the nation are serviced by a non-profit organization called TIAA-CREF which provides retirement options for teachers. Many teachers have chosen to place their retirement funds into this program. When they transfer to another college they prefer to keep their funds in TIAA-CREF but the way Montana's system is designed they cannot do this and must join the TRS plan. He noted as a result the University has lost many prospects because they did not wish to do this with their funds. This bill would just give them the option to have either plan. Currently a faculty member is not vested in TRS until he has five years or more in the plan and Rep. Lory stated he felt if they had more than five years they would not wish to opt out of the TRS plan. It might be advantageous to those who have less than five years to join TIAA-CREF though he said. There would be a time limit for taking the option before January of 1988. Once you decide which option to take you cannot rescind he added. Any new faculty would have 90 days to make their decision as to which plan they choose. He noted it is getting very difficult to recruit talented faculty because of our low salaries in comparison to other states and he felt it might be an incentive to bring in new people. He realized there was a question on the unfunded liability of approximately 40 years but felt efforts had been made to resolve those differences to cover the liability. Currently approximately 14.4% is put into TRS every year and with the optional method they are suggesting a contribution of 10% going to TIAA-CREF and the remaining 4.4% going into the unfunded liability fund. He noted that the

Teacher's Retirement Board felt it might take between 5.8% and 4.4% to cover the unfunded liability. The House had amended the bill to say that when an actuarial study is made and if there was a difference that the university system would agree to pay that difference over a period of 40 years to protect the interests of TRS. He felt the difference would be less than 5.8%.

PROPONENTS: Carrol Krause, Commissioner of Higher Education, distributed a fact sheet on the optional retirement plan. (EXHIBIT 1) He noted that over the years there have been difficulties recruiting faculty members and this might help to make employment in Montana look more attractive. He noted most of the people they have tried to recruit have been members of TIAA-CREF because it is an affordable plan that can move with the members wherever they teach. If they have been a member of this plan for several years they do not like to disrupt their funds. He noted there was a concern that there would be great numbers of people who might decide to take advantage of this option and this would threaten the unfunded liability. He stated he did not anticipate those who are already in TRS opting out to go with another plan. The primary advantage would be to those who are newly hired and are already members of TIAA-CREF. He stated they were willing to help take care of the liability over a 40 year time period. He felt this proposal would help the university system and urged support.

Jim Koch, President of the University of Montana, stated he would not support the bill nor would his faculty if they felt it might be jeopardizing their own retirements. He felt the unfunded liability had been addressed. He noted they are trying to recruit several deans presently and most of them are members of TIAA-CREF and it is a serious disadvantage to them to have to join another plan.

Ken Heikes, Administrative Vice President at Eastern Montana College reported that their faculty bargaining unit had agreed unanimously to support the bill.

David Evanson, who works with the Commissioner of Higher Education's office, said he had followed the discussions of this bill and its impact. He felt the differences were very narrow and only applied to two portions of the bill. He felt the Teacher's Retirement Board would not object if some agreements could be reached. He said they would be receptive provided the unfunded liability could be given to TRS up front. At 5.8% the amount of the unfunded liability could be about \$600,000 over the next four year period and that in that same amount of time TRS would receive over \$200 million in member contributions. The Board feels they have a duty to protect the fiduciary interests of the retirement fund. If the committee

feels delayed funding is appropriate they would accept the bill as it is now written but if they wish to accept the TRS Board position it would require an amendment he stated.

Lester Loble, II, a Helena attorney representing the Teacher's Insurance & Annuity Association explained what the bill would do. He stated Section 1 enables the Board of Regents to make the optional plan available, Section 3 enables teachers to have six months to join TIAA-CREF if they desire to and notes that all new employees have 90 days to elect which plan they choose. He stated that 10% of the 14.4% of the teacher's salaries would then flow into the optional retirement plan and the balance would go to TRS to the unfunded liability. He noted if an actuary study proves that this unfunded liability can be funded for less then the difference would also go to the optional retirement plan. The floor is 10%. Section 7 directs payments of benefits and Section 9 is amendatory language which the House added to address the concerns of the TRS. He noted he had sat in on discussions concerning the effect TIAA-CREF would have on the TRS plan and felt that it would not harm the TRS plan as their system is sound. He noted that the TRS actuary valuation is now two years old but that the PERS had shown considerable improvement in the past two years and felt the same would apply to the TRS system. He noted in 34 states he had researched 18 have a true option. He showed the committee a printout of the universities in those states that have such a plan. (EXHIBIT 2)

Kathy Horejsi, representing the Montana Federation of Teachers, stated they were in support of HB 300 because they did not feel that it would have a significant impact on TRS and if they did they would not be supporting the bill. They feel it would offer the university system a means of recruiting talented faculty in exchange for a minor impact on the TRS.

OPPONENTS: David Senn, Administrator of the Teacher's Retirement Board, noted they were in opposition to this bill and had studied it very carefully. They were not opposed to the concept but did oppose the reduction in funding of the liability and to allowing members to select either the teacher's retirement or the optional retirement plan. He distributed a fact sheet showing the difference in contribution rates under current law and under the proposed law. (EXHIBIT 3) Currently members contribute 14.472% of which 5.8% supports the unfunded liability. Under the arrangements provided in this legislation TRS would receive approximately \$600,000 less than what is necessary to fund the unfunded liability and then compounds this by providing that contributions not received will be funded over a period of 40 years. He felt if you had an option it might ruin the plan as it is not practical to have a health insurance program or a retirement plan where membership is optional. It would only benefit employees of the university system and would discriminate against the public school teachers. If the liability

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could be fully funded right away they would be willing to offer amendments to provide a solution. (EXHIBIT 4)

Alton Hendriksen, Consulting Actuary for the TRS, explained the issue of funding. He noted that the TRS is actuarially sound presently and would be paid off in less than 38 years at the current rate of funding. They have 2000 members currently who contribute 5.8% of their salaries and there is concern that if 80% of the teachers would leave the TRS system the remainder would have to pay off the full 5.8% which would weaken the TRS he said. He thought perhaps instead of giving the first 10% to TIAA-CREF and the remainder to the TRS fund, that TRS ought to get their funding first and the remainder go to TIAA-CREF. He did note the language in the bill does provide for funding in four years but he was concerned where this funding might come from. He feared a future legislative body might not fund the 5.8%. He wondered what harm there would be to waiting for four more years to see if the funding is going to be available.

Tom Ryan, an appointee on the Teacher's Retirement Board, opposed the bill because he felt one cannot predict what future legislators might do. He noted that in none of the discussions he had attended could anyone predict what the actual outcome would be. He was committed to the integrity of the system and its service to its membership. He felt action should be postponed until an actuary study could be completed. He also noted that every bit of money that can be turned over to our Board of Investments he felt was beneficial and doubted that TIAA-CREF would do this.

Eric Feaver, with the Montana Education Association, stated he was not sure what he had heard was "snakeoil" or "supercollider." He did not believe the House had addressed all the concerns. He noted as the number of folks who are actively involved diminish in the system, then the capacity to increase benefits to those who are going to retire or have already retired would also be diminished. He stated that TIAA-CREF might be worthwhile but in Montana it might be just a gimmick. He urged the committee to deal with the greater issue of proper compensation for the university people.

Jess Long, Executive Secretary for the School Administrator's of Montana, opposed HB 300 because they were concerned with the creation of unfunded liability and felt there should be an up front coverage of the liability rather than a delayed procedure. If the Board of Regents should take over the vo-tech centers this would introduce another contingency that might also impact the TRS. He urged the committee not to concur.

Bruce Moerer, representing the Montana School Board's Association, stated they were concerned about whether or not the full actuarial costs would be paid and wondered too if a future commitment would be kept by the legislators.

Dan Bucks from the Department of Revenue spoke as neither an opponent or a proponent. He stated the bill as drafted properly reflects current state policy of exempting in its entirety the retirement income of employees of PERS and the Teachers' Retirement System. He noted there are at least two bills in this session that might modify the teacher's retirement income and the public employee's retirement incomes. The coordination amendment he was offering would help bring this in line with whatever is adopted. It would not affect this bill if no other legislation is adopted but if this bill is passed then this language would need to be added he said. (EXHIBIT 5)

QUESTIONS ON HOUSE BILL 300: Senator Harding asked Rep. Lory if he felt future legislators would honor this proposal. He stated it would be a statutory responsibility of the University. Senator Lynch noted that statutes are made by the legislature and they can also be revoked by the legislature. Senator Lynch asked Mr. Krause if the University was trying to be an island by itself. He was also concerned about what would happen if they were to take over governing the vo-techs. Mr. Krause stated the vo-techs are not under their jurisdiction and this proposal indicates how it would function under the University system. Senator Lynch asked David Evenson to comment. Mr. Evenson stated if the committee accepts TRS's position that amendments would be required and if one accepted the University's position it could be passed in the bill's current form for delayed funding. He felt there would still be the problem of whether or not future legislators would honor the request. David Senn stated the Board would like to have amendments stating that the Board of Regents would be required to pay the actuarial costs of the unfunded liability as determined by the actuary. If such an amendment could be adopted then the Board would approve of the bill he said.

Senator Rasmussen asked Mr. Krause where they would get the \$600,000 unfunded liability. Mr. Krause stated it might be a problem and preferred that it be extended over a 40-year period. Senator Harding wondered if it would be impossible to come up with the 5.8%. Rep. Lory stated it says in the bill that if they take the optional retirement plan they will receive 10% of their salary and if the unfunded liability is 5.8% it would mean upon retirement the teachers could only receive 8.4% not the 10%.

Senator Farrell asked Alton Hendriksen if it would hurt TRS if the unfunded liability were to be paid off in 40 years. Mr. Hendriksen stated they would like to have the forty taken out of the wording and say "that the funding rate that is established for the system itself" which would make it the same as other members

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pay into their systems. Mr. Senn had prepared some amendments he felt would address concerns of the Teacher's Retirement Board. These would require that language be inserted that would state the university would pay the actuarial cost as determined by an actuary and the residual of the total statutory rate of 14.4% would then be available to the optional retirement plan.

Senator Lynch wanted clarification that if the amendments were passed TIAA-CREF could come into the state and there might be some teachers who would opt to go with TIAA-CREF who are presently in the TRS system and that TRS would have the unfunded liability funded.

Senator Rasmussen asked Mr. Loble to respond. He said TIAA-CREF was concerned that there would not be enough money available so that at the end of the teacher's career he would have a retirement that was comparable to what he would have had in TRS. Senator Haffey asked Rep. Lory how many members were in TRS presently and he stated about 15,000 active and 5,000 inactive and they felt about 240 might opt out of TRS at the present time if the option were offered. It could be expected that 80% of new faculty that might be hired would go with TIAA-CREF.

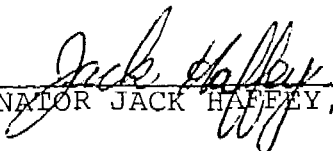
Senator Haffey asked David Senn, Lester Loble and David Evanson to work with Eddy McClure on amendments that might resolve the differences expressed.

Rep. Lory stated he hoped the committee would look at this proposal seriously and not to put it off for four more years. He was most concerned about helping out recruitment at the college. The hearing was CLOSED on House Bill 300.

It was noted that the latest Governor's appointments had been received by the committee and the committee would be receiving their assignments at the meeting on March 19, 1987.

The meeting was adjourned at 11:25 a.m.

cd


SENATOR JACK HAFEEY, Chairman

SENATE STATE ADMINISTRATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3/18/87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR JACK HAFLEY	X		
SENATOR WILLIAM FARRELL	X		
SENATOR LES HIRSCH	X		
SENATOR JOHN ANDERSON	X		
SENATOR J. D. LYNCH	X		
SENATOR ETHEL HARDING	X		
SENATOR ELEANOR VAUGHN	X		
SENATOR SAM HOFMAN	X		
SENATOR HUBERT ABRAMS	X		
SENATOR TOM RASMUSSEN	X		

Each day attach to minutes.

DATE _____

SENATE STATE ADMINISTRATION

COMMITTEE ON

VISITORS' REGISTER

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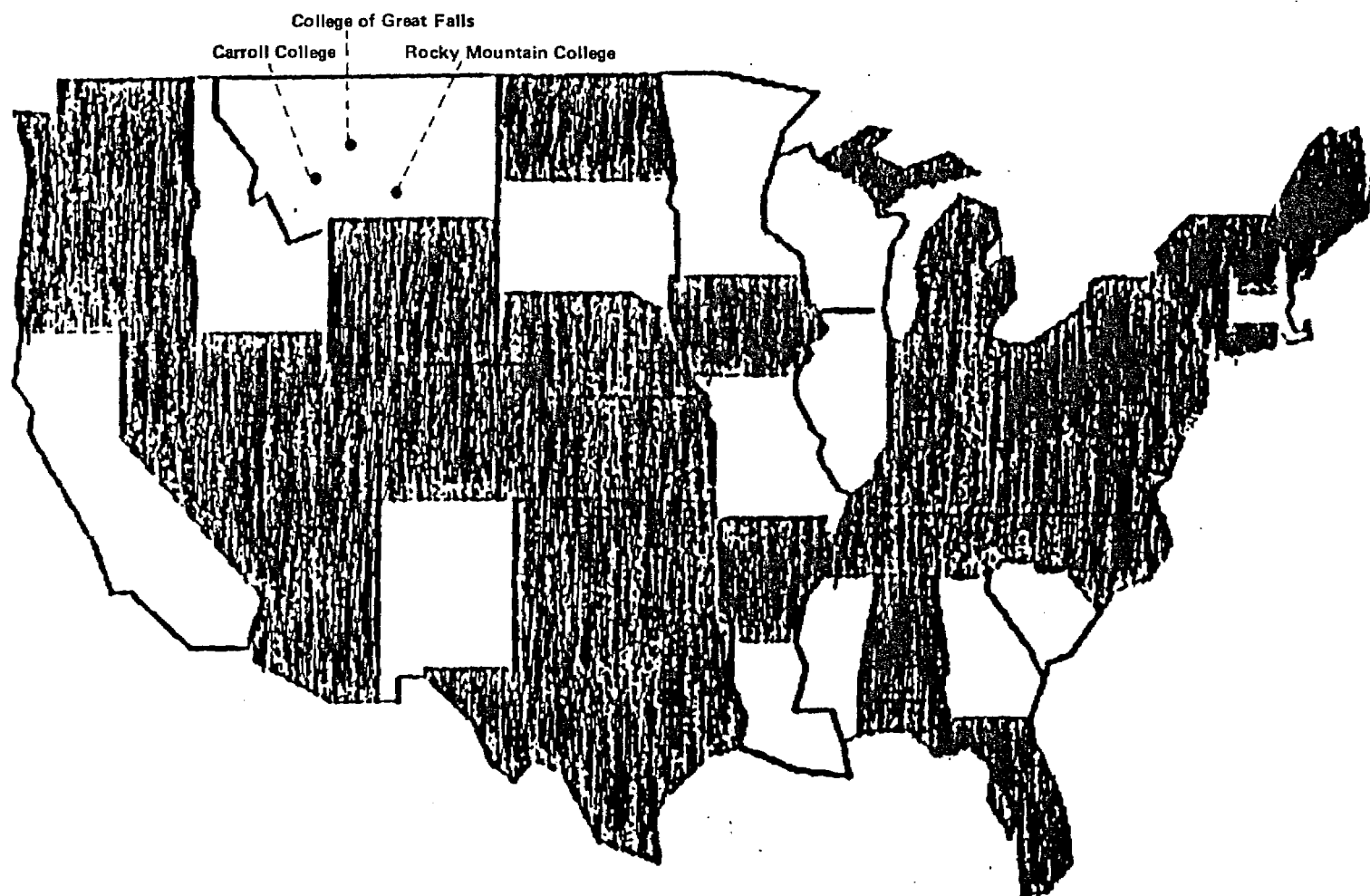
SENATE NO. 1
EXHIBIT NO. 1
DATE 3-18-87
BILL NO. HB 300

H.B. 300

FACT SHEET OPTIONAL RETIREMENT PLAN

1. TIAA-CREF was founded by the Carnegie Foundation in 1918 as a nonprofit organization to provide retirement options for faculty at colleges, universities and certain other nonprofit educational institutions.
2. The TIAA-CREF systems has been designed as the major pension system of higher education in the United States with the key to the system being a fully funded contract which is vested immediately for the teachers and is portable. This enables the teacher to move freely during his/her career from one institution to another (state to state--private institution to public) without the teacher having to forfeit his/her accrued pension rights.
3. Approximately 3,700 educational institutions (public and private) are participants, 550 of these are public colleges and universities in 35 states. In Montana, Carroll College, College of Great Falls, and Rocky Mountain College are participants.
4. Assets of TIAA-CREF are over \$55 billion.
5. The Montana universities and colleges must compete nationally with other institutions of higher learning for faculty and staff. The competition can be severe and often involves recruiting both teachers in the beginning of their careers or experienced educators making mid-career changes. Frequently, a critical element affecting a person's decision to accept a position is the availability of a retirement plan that is compatible with the program that they have joined at some other college or university. Portability of benefits is important because it supports mobility between institutions of higher learning. Academic careers often involve service at several institutions. As careers advance at successive institutions, scholarship, experience and talents are developed and refined. Montana students benefit from the interchange of ideas stimulated by the exchange of teachers from other institutions of higher learning.
6. TIAA's present investments in the State of Montana total \$36 million.

STATE SYSTEMS PARTICIPATING IN HIGHER EDUCATION'S RECOGNIZED PENSION SYSTEM



Participating States - Shaded

Public Colleges And Universities At
Which The TIAA-CREF Plan Is An Alternative

ARKANSAS STATE UNIVERSITY
EXHIBIT NO. 2
DATE 3-18-87
BILL NO. HB 300

Arizona

Arizona State University
University of Arizona
Northern Arizona University

Arkansas

Arkansas State University
Arkansas Tech University
University Of Arkansas At Fayetteville
University Of Arkansas At Little Rock
University Of Arkansas At Monticello
University Of Arkansas At Pine Bluff
University Of Arkansas Cooperative Extension Service
University Of Arkansas For Medical Sciences
University Of Central Arkansas
East Arkansas Community College
Garland County Community College
Henderson State University
Mississippi County Community College
Phillips County Community College
Southern Arkansas University
Westark Community College

Connecticut

Asnuntuck Community College
Greater Hartford Community College
Housatonic Regional Community College
Manchester Community College
Mattatuck Community College
Middlesex Community College
Mohegan Community College
Northwestern Connecticut Community College
Norwalk Community College
Quinebaug Valley Community College
South Central Community College
Tunxis Community College

Greater New Haven State Technical College
Hartford State Technical College
Norwalk State Technical College
Thames Valley State Technical College
Waterbury State Technical College

Central Connecticut State University
Eastern Connecticut State University
Southern Connecticut State University
Western Connecticut State University

University Of Connecticut At Storrs
University Of Connecticut Health Center

Florida

Board of Regents of the State University System of Florida
University Of Central Florida
Florida A & M University
Florida Atlantic University
Florida International University
Florida State University
University Of Florida At Gainesville
University Of North Florida At Jacksonville
University Of South Florida
University Of West Florida

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Indiana

Ball State University
Indiana State University
University Of Southern Indiana

Iowa

Iowa State University Of Science And Technology
University Of Iowa
University Of Northern Iowa

Maryland

Allegany Community College
Anne Arundel Community College
Baltimore Community College
Catonsville Community College
Cecil Community College
Charles County Community College
Chesapeake College
Dundalk Community College
Essex Community College
Frederick Community College
Garrett Community College
Hagerstown Junior College
Harford Community College
Howard Community College
Montgomery Community College
Prince George's Community College
Wor-Wick Tech Community College

University of Baltimore
Bowie State College
Coppin State College
Frostburg State College
Maryland State Board For Higher Education
Morgan State University
St. Mary's College
Salisbury State College
Towson State University
University Of Maryland
University Of Maryland At Baltimore
University Of Maryland Baltimore County
University Of Maryland Center For Environmental

And Estaurine Studies

University Of Maryland Central Administration
University Of Maryland College Park
University Of Maryland Cooperative Extension Service
University Of Maryland Eastern Shore
University Of Maryland University College

Michigan

Central Michigan University
Eastern Michigan University
Ferris State College
Lake Superior State College
Michigan Technological University
Northern Michigan University

Minnesota

University of Minnesota

New York

Bernard Baruch College
Brooklyn College
City College
Graduate School/University Center
Hunter College
John Jay College
Lehman College
New York City Technical College
Queens College
College Of Staten Island
York College
Bronx Community College
Evers College
Hostos Community College
Kingsborough Community College
La Guardia Community College
Manhattan Community College
Queensborough Community College
Mount Sinai School of Medicine

State University Of New York At Albany
State University Of New York At Binghamton
State University Of New York At Buffalo
State University Of New York At Stony Brook
State University Central Administration
State University Health Science Center At Brooklyn
State University Health Science Center At Syracuse
New York State College At Brockport
New York State College At Buffalo
New York State College At Cortland
New York State College At Fredona
New York State College At Geneseo
New York State College At New Paltz
New York State College At Old Westbury
New York State College At Oneonta

New York State College Of Optometry
New York State College At Oswego
New York State College At Plattsburg
New York State College At Potsdam
New York State College At Purchase
New York State College of Technology
New York State College of Environmental
Science and Forestry
New York State Maritime College
New York State College Of Ceramics At Alfred University
New York State College Of Agriculture And
Life Sciences At Cornell University
New York State College Of Human Ecology At Cornell University
New York State College Industrial And Labor Relations At Cornell
New York State Veterinary College At Cornell
New York Empire State College
New York Agricultural And Technical College At Alfred
New York Agricultural And Technical College At Canton
New York Agricultural And Technical College At Cobleskill
New York Agricultural And Technical College At Delhi
New York Agricultural And Technical College At Farmingdale
New York Agricultural And Technical College At Morrisville

Adirondack Community College
Broome Community College
Cayuga Community College
Clinton Community College
Columbia-Greene Community College
Corning Community College
Dutchess Community College
Erie Community College
Fashion Institute Of Technology
Finger Lakes Community College
Fulton-Montgomery Community College
Genesee Community College
Herkimer County Community College
Hudson Valley Community College
Jamestown Community College
Jefferson Community College
Mohawk Valley Community College
Monroe Community College
Nassau Community College
Niagara County Community College
North Country Community College
Onandaga Community College
Orange County Community College
Rockland Community College
Schenectady County Community College
Suffolk County Community College
Sullivan County Community College
Tompkins-Cortland Community College
Ulster County Community College
Westchester Community College

North Carolina

University Of North Carolina At Asheville
University Of North Carolina At Chapel Hill

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HB 300

University Of North Carolina At Charlotte
University Of North Carolina At Greensboro
University Of North Carolina At Wilmington
Appalachian State University
East Carolina University
Elizabeth City State University
Fayetteville State University
North Carolina Agricultural And Technical State University
North Carolina Central University
North Carolina School Of Arts
North Carolina State University
Pembroke State University
Western Carolina University
Winston-Salem State University

Oregon

Oregon State Board Of Higher Education
Eastern Oregon State College
Oregon Health Sciences University
Oregon Institute of Technology
Oregon State University
Portland State University
Southern Oregon State College
University Of Oregon
Western Oregon State College

Pennsylvania

Pennsylvania Community College Of Allegheny County
Pennsylvania Community College Of Beaver County
Bucks County Community College
Butler County Community College
Community College Of Delaware County
Harrisburg Area Community College
Lehigh County Community College
Luzerne County Community College
Montgomery County Community College
Northampton County Area Community College

Bloomsburg University
California University
Cheyney University
Clarion University
East Stroudsburg University
Edinboro University
Indian University Of Pennsylvania
Kutztown University
Lock Haven University
Mansfield University
Millersville University
Shippensburg University
Slippery Rock University
West Chester University

Pennsylvania State University

Reading Area Community College
Westmoreland County Community College
Williamsport Area Community College

FILE NO. 2
DATE 3-18-87
BILL NO. HB 300

Tennessee

Austin Peay State University
East Tennessee State University
Memphis State University
Middle Tennessee State University
Tennessee State University
Tennessee Technological University
Chattanooga State Technical Community College
Cleveland State Community College
Columbia State Community College
Dyersburg State Community College
Jackson State Community College
Motlow State Community College
Nashville State Technical College
Roane State Community College
Shelby State Community College
State Board of Regents System Office
State Technical Institute At Knoxville
State Technical Institute At Memphis
Tri-Cities State Technical Institute
Volunteer State Community College
Walters State Community College
University Of Tennessee At Chattanooga
University Of Tennessee At Knoxville
University Of Tennessee At Martin
University Of Tennessee Center For Health Sciences

Texas

University System of South Texas
Corpus Christi State University
Laredo State University
Texas A & I University

Texas A & M University System
Prairie View Agricultural And Mechanical College
Tarleton State University
Texas A & M University
Texas A & M University At Galveston

Alamo Community College District
Alvin Community College
Amarillo College
Angelina College
Austin Community College
Bee County College
Collin County Community College
Cook County College
Dallas County Community College
Del Mar College
El Paso Community College
Houston Community College

Kilgore College
Laredo Junior College
Lee College
College of the Mainland
McLennan Community College
Odessa College
Paris Junior College
San Jacinto College
Tarrant County Junior College
Temple Junior College
Texas Southmost College
Texas State Technical Institute
Tyler Junior College
Wharton County Junior College

Angelo State University
East Texas State University
University of Houston
Lamar University
Midwestern State University
North Texas State University
Pan American University
Sam Houston State University
Southwest Texas State University
Stephen F. Austin State University
Sul Ross State University
Texas College of Osteopathic Medicine
Texas Southern University
Texas Tech University
Texas Tech University Health Sciences Center
Texas Woman's University
West Texas State University

University Of Texas System At Arlington
University Of Texas System At Austin
University Of Texas System At Dallas
University Of Texas System At El Paso
University Of Texas System At San Antonio
University Of Texas System At Tyler
University Of The Permian Basin
Health Science Center At Dallas
Health Science Center At Houston
Health Science Center At San Antonio
Health Science Center At Tyler
Institute Of Texan Cultures
Medical Branch At Galveston
University Of Texas System Cancer Center

Virginia
Virginia Community College System
Blue Ridge Community College
Central Virginia Community College
Dabney Lancaster Community College
Danville Community College
Eastern Shore Community College
Germananna Community College
J. Sargeant Reynolds Community College

John Tyler Community College
Lord Fairfax Community College
Mountain Empire Community College
New River Community College
Northern Virginia Community College
Patrick Henry Community College
Paul D. Camp Community College
Piedmont Virginia Community College
Rappahannock Community College
Southside Virginia Community College
Southwest Virginia Community College
Thomas Nelson Community College
Tidewater Community College
Virginia Highlands Community College
Virginia Western Community College
Wytheville Community College

2
3-18-87
HB 300

Christopher Newport College
Clinch Valley College
George Mason University
James Madison University
Longwood College
Mary Washington College
Medical College Of Virginia
Norfolk State University
Old Dominion University
Radford University
Richard Bland College
Virginia Commonwealth University
Virginia Institute Of Marine Science
Virginia Military Institute
Virginia Polytechnic Institute
Virginia State University
College of William and Mary

University of Virginia

West Virginia
Board of Regents College And University System
Bluefield State College
Concord College
Fairmont State College
Glenville State College
Marshall University
Parkersburg Community College
Potomac State College Of West Virginia University
Shepherd College
Southern West Virginia Community College
West Liberty State College
West Virginia College of Graduate Studies
West Virginia Institute of Technology
West Virginia Northern Community College
West Virginia School of Osteopathic Medicine
West Virginia State College
West Virginia University

Wyoming

University of Wyoming

Casper College

Central Wyoming College

Eastern Wyoming College

Laramie County Community College

Northwest Community

Sheridan College

Western Wyoming Community College

FILE NO. 2
DATE 3-18-87
BILL NO. HB 300

HB 300
Lory
Authorizing an Optional Retirement Plan

HB 300 would permit the university system to offer an Optional Retirement Plan (ORP) to faculty and administrative staff. This plan would be an alternative to the current Teachers Retirement System (TRS) plan. New employees would have 90 days in which to choose TRS or ORP. Existing employees would have 6 months after the effective date (July 1, 1987) to choose.

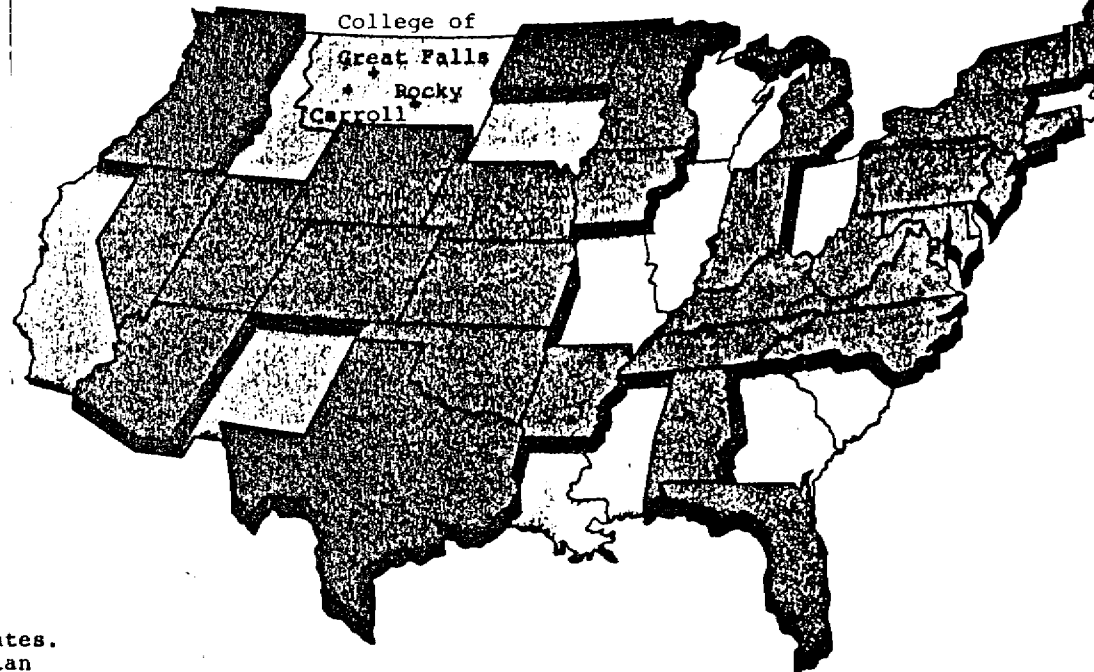
HB 300 should be concurred in because:

- Montana can then join 34 states and District of Columbia which offer an ORP in order to offer the widest range of benefits possible.
- Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF) were founded by the Carnegie Corporation and are nonprofit organizations whose services are limited to colleges, universities and educational research institutions. Today over 3,700 educational institutions, including 550 publicly supported colleges and universities in 34 states and the District of Columbia, permit participation in the TIAA-CREF ORP.
- This represents 90% of all private colleges and universities, including Rocky, Carroll and College of Great Falls and 50% of all public institutions.
- TIAA-CREF is sound, having 1 million participants and assets in excess of \$55 billion. It is the largest private pension company in the USA.
- The ORP is attractive to certain types of faculty and staff because
 - ORP vests immediately (TRS doesn't vest for 5 years).
 - ORP is portable. (TRS is not).
 - The university system has had a difficult time recruiting -- particularly in the upper levels where turnover is high and often occurs in less than 5 years. Attractive candidates have refused to accept offers when they learned they could not continue their TIAA-CREF ORP at Montana.
- Competition for faculty on the university level is between states. Thus, the portability and immediate vesting of a retirement plan is more important to the competitive effort than in the case of other public schools where the principal competition is within the state.
- TRS has an unfunded liability which was created by the generosity of previous legislatures. However once a member has selected ORP, there never can be an unfunded liability on that account. That person will never be a financial burden to TRS.
- Impact on TRS would be minimal. Based upon experience in other states only 15% of existing university system personnel would elect the ORP; 291 people would leave the 15,000 member TRS or 1.94%. If university system turnover is 10% (194 people) and 80% elect the ORP then in the second and subsequent years 155 persons would choose not to join TRS or 1.03% of the 15,000 member TRS.

The House State Administration Committee recommended "DO PASS" 14-4. HB 300 passed the full House 72-21 on 2nd reading and 77-15 on 3rd.

VOTE "BE CONCURRED IN" ON HB 300.

States With ORP-Type Plans



13%	Effect on TRS	100%
U. System Employ- ees 1940	15,000 MEMBER TRS	3-18-87
1.94%	291 U. System Employees Switching to ORP (one time)	155
1.03%	155 New U. System Employees	

Teachers' Retirement System

DATE 3-18-87Contribute RateBILL NO. HB 300

Current Law - All Employees and Employers

	<u>Future Liabilities</u>	<u>Past Liabilities</u>	<u>Total</u>
Employee	7.044%	-0-	7.044%
Employer	<u>1.628%</u>	<u>5.8%</u>	<u>7.428%</u>
Total	8.672%	5.8%	14.472%

Proposed Law - University System employees
electing Optional Retirement Plan

	<u>Future Benefits TIAA-CREF</u>	<u>Past Liabilities TRS</u>	<u>Total</u>
Employee	7.044%	.-0-	7.044%
Employer	<u>2.956%</u>	<u>4.472%</u>	<u>7.428%</u>
	10.0%	4.472%	14.472%

* University's Contributions to Fund Past Liabilities

		<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>FY 1991</u>	<u>Total</u>
Current Law	5.8%	3,190,000	3,190,000	3,190,000	3,190,000	12,760,000
Proposed Law						
TRS	5.8%	2,711,500	2,511,980	2,312,460	2,112,940	9,648,880
**TIAA-CREF	<u>4.472%</u>	<u>368,940</u>	<u>522,777</u>	<u>676,614</u>	<u>830,450</u>	<u>2,398,781</u>
		3,080,440	3,034,757	2,989,074	2,943,390	12,047,661
Reduction in funding	1.328%	109,560	155,243	200,926	246,610	712,339

* - Assume total salaries remain at current level of approximately 55 million and salaries for new employees of 4.3 million.

** - Assume 15% of current employees elect TIAA-CREF in the first year and 80% of all new employees each year thereafter.

prepared by
David L. Senn, Administrator
Teachers' Retirement Division

The Teachers' Retirement Board has reviewed this proposal on three separate occasions. First on December 12, 1986 again on February 11, 1987 and as recently as yesterday, March 17, 1987. Each time the Board has stated they are not opposed to the basic concept of this legislation, however, they are opposed to the reduction in funding and to allowing members to select Teachers' Retirement or an optional retirement program.

The combined employee and employer contribution currently paid to the Montana Teachers' Retirement System is 14.472%. This is the rate set by the Teachers' Retirement Act. 8.672% is used to fund future benefits and 5.8% is used to fund past liabilities of \$559 million. This bill will reduce the contribution rate required to fund past liabilities to 4.472%. This is a reduction in the obligation of the university system of 1.328%. The 4.472% provided in this legislation is what was left over after TIAA-CREF was given what they felt they needed to have a viable plan, namely 10%. 10% would provide for a larger percentage of the total contribution to fund future benefits for employees of the university system than would be provided to fund future benefits for the public school teacher. The Teachers' Retirement Board believes it is our first obligation to continue funding the Montana Teachers' Retirement System and if anything is left over, this should be the contributions available to the optional retirement plan. Under the contribution arrangements provided in this legislation, the Teachers' Retirement System in four years, would receive approximately \$600,000-\$700,000 less than what was necessary to fund the unfunded liabilities that exist today. The bill further compounds the funding shortfall by providing any contributions not received will be funded over forty years. Had these contributions been the same as required by the local school districts, the university system would not need to refinance their obligation over a longer period of time.

Under an optional retirement program only those members who find it to their financial advantage will tend to join the Teachers' Retirement System. Other employees, such as younger members and those anticipating termination within five years, will tend to join the optional retirement plan. Giving employees the option to select retirement systems would be very similar to giving employees the option to take the employer contribution to the state health insurance program. If given the option, only those

members who find it to their benefit would tend to select the health insurance program. This would result in the financial ruin of the program. It is not practical to have a health insurance program nor is it practical to have a retirement program where membership is optional.

House Bill 300 is a benefit enhancement that benefits only those employees of the university system and as such discriminates against the public school teacher for whom membership is mandatory.

In summary, House Bill 300 does not provide adequate funding to the Montana Teachers' Retirement System. Revenue to the Teachers' Retirement System will be reduced over the next four years and then the shortfall will be refinanced over forty years. The bill does not specify how the university system will pay this additional liability. The combined statutory rate today is only 14.472%. The bill states that they shall pay an additional sum. The Teachers' Retirement Board asks that you fully fund the Montana Teachers' Retirement System first, before we send our money out-of-state. It discriminates against the members of the school districts for whom membership in the Retirement System is mandatory and it provides for the opportunity for selection against the Teachers' Retirement System. The Teachers' Retirement Board requests that you do not concur in House Bill 300. However, if it is the desire of the legislature to give the university system an optional retirement plan, the Teachers' Retirement Board is willing and prepared to offer amendments that would fully fund this bill and that would not discriminate against the public school teacher.

AMENDMENT TO HB300

Third Reading Copy

SENATE CLERK RECORD
AMEND NO. 5
DATE 3-18-87
BILL NO. HB300

1. Page 15, line 20.

Insert: "NEW SECTION. Section 14. Coordination instruction.
If any act of this legislature is passed and approved
which amends 15-30-111 providing for the taxation of all
or a portion of previously exempt retirement benefits,
sections 8 and 10 of this act providing an exemption for
retirement benefits of certain university system employ-
ees are void."

Renumber: following sections.

rr/93

amendhb300

especially with the Centennial celebrations that are coming in the state in 1989. He felt the Martin Luther King Day should be a day of observance rather than a state holiday. He noted there have not been any new holidays added since 1927.

Terry Minnow, representing the Montana Federation of Teachers and the Montana Federation of State Employees stated they supported this compromise bill.

Wilbur Rehmann, representing the Montana Nurses' Association, also supported the compromise bill. He felt it was important to keep the general election day as a holiday to encourage voting at the polls.

Eleanor Wend, with the Peace Legislative Coalition, noted they had originally supported an official holiday designation for Martin Luther King and were in support of this compromise.

OPPONENTS: There were none.

QUESTIONS ON HOUSE BILL 708: Senator Harding asked Rep. Fritz about the sealed records of Martin Luther King and he noted that for every racist letter he had received he had received hundreds of letters in support of an observance. Senator Vaughn wondered if Heritage Day could be a different day each year and was told it would up to the local governments to decide.

In CLOSING, Rep. Nelson noted there were eleven states that have an official Martin Luther King holiday and eleven that have a day of observance. The hearing was CLOSED on House Bill 708.

EXECUTIVE ACTION ON HOUSE BILL 708: Senator Lynch MOVED THAT HOUSE BILL 708 BE CONCURRED IN. Senator Hofman seconded the motion. The motion carried unanimously. Senator Kolstad will carry the bill on the Senate floor.

EXECUTIVE ACTION ON HOUSE BILL 300: Eddy McClure stated that the opposing parties had tried to reach an agreement and could not except for the coordinating amendment suggested by the Department of Revenue. David Senn, from the Teacher's Retirement Board, stated the amendment he was proposing would provide actuarial costs to fund the unfunded liability and the balance would go to the Board of Regents. It would also allow the university to fund the current liability over a period of forty years. David Evenson, who works with the Board of Regents, noted they had tried to reach a compromise but came to the conclusion that their amendment would not be acceptable as it would not make TIAA-CREF competitive if their rate was dropped below 10%. He noted that 75% of those who have the TIAA-CREF option contribute at a rate of 10% or more. He stated that Alton Hendriksen felt the amount that might have to be paid might actually be closer to

\$200,000 than \$600,000 after the actuary study is completed. Mr. Evanson felt there was no room for any more concessions. Senator Lynch MOVED THAT THE COORDINATING AMENDMENT LANGUAGE SUGGESTED by Dan Bucks from the Department of Revenue be adopted. Senator Harding seconded the motion. The motion passed unanimously.

Senator Lynch stated he could not support the bill as it is currently written but could if it were amended. He felt it was ridiculous to start a new retirement system when the obligations of the TRS had not been met. Senator Haffey felt he could support the bill with or without the amendments. Senator Farrell asked David Senn how this would affect TRS. He said presently the bill does not state how the additional unfunded liability would be paid. It would hurt TRS by their having reduced funding for the next four years. Senator Farrell then MOVED THAT HOUSE BILL 300 BE CONCURRED IN. Senator Hirsch seconded the motion. Senator Lynch felt it would be foolish to pass the bill because he felt others might come in who want to do this same type of thing to other pension plans. He felt it was bad business practice not to know where the money would be coming from. Senator Hirsch felt the Board of Regents was responsible but they just did not know yet what the actual figure would be. Senator Harding also felt it was bad business practice and did not want to harm the TRS plan. Senator Farrell noted the university needs to do something more to be able to entice new faculty and felt it might be very beneficial. Senator Rasmussen agreed that the university needs some help in their recruiting efforts and felt it was not that large an amount to be so concerned about. He felt the bill should be passed as written. Senator Haffey also agreed it would not harm the system that much. Senator Lynch still felt there would not be a great number of teachers added to TRS in the state and felt the system should be kept sound. On a roll call vote of Senator Farrell's MOTION THAT HOUSE BILL 300 BE CONCURRED IN AS AMENDED, the motion carried 7-3 with Senators Harding, Vaughn and Lynch voting "no."

EXECUTIVE SESSION ON HOUSE BILL 796: Mr. John Alke had proposed an amendment for grandfathering in those who have the machines currently. Senator Haffey spoke in favor of the amendment. He felt without the amendment you would see more casinos being built. He thought the people who had opened the establishments had done so legally and in accordance with our laws. He noted they do not have a "lock" on the market however as others can put in more machines if they desire to. Senator Farrell MOVED TO ADOPT THE AMENDMENT TO GRANDFATHER. Senator Lynch then MADE A SUBSTITUTE MOTION THAT THIS AMENDMENT TO GRANDFATHER NOT BE ADOPTED. He felt you would be creating a monopoly for those that were already in existence. Senator Harding felt it would create a hardship for those who are in other businesses and was opposed. Senator Ras-

SENATE STATE ADMINISTRATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3-30-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR JACK HAFNEY	X		
SENATOR WILLIAM FARRELL	X		
SENATOR LES HIRSCH	X		
SENATOR JOHN ANDERSON	X		
SENATOR J. D. LYNCH	X		
SENATOR ETHEL HARDING	X		
SENATOR ELEANOR VAUGHN	X		
SENATOR SAM HOFMAN	X		
SENATOR HUBERT ABRAMS	X		
SENATOR TOM RASMUSSEN	X		

Each day attach to minutes.

MARCH 20 19 37

MR. PRESIDENT

SENATE STATE ADMINISTRATION

We, your committee on.....

having had under consideration..... HOUSE BILL No. 300

third reading copy (blue)
color

AUTHORIZE OPTIONAL RETIREMENT PROGRAM FOR CERTAIN U. SYSTEM FACULTY & STAFF
LORY (Haffey)

HOUSE BILL 300

Respectfully report as follows: That..... No.....

be amended as follows:

1. Page 15, line 20.

Insert: "NEW SECTION. Section 14. Coordination instruction.
If any act of this legislature is passed and approved
which amends 15-30-111 providing for the taxation of all
or a portion of previously exempt retirement benefits,
sections 8 and 10 of this act providing an exemption for
retirement benefits of certain university system employ-
ees are void."

Renumber: following section

AND AS AMENDED
BE CONCURRED IN

~~DO PASS~~

~~DO NOT PASS~~

SENATOR JACK HAFFEY

Chairman.

ROLL CALL VOTE

STATE ADMINISTRATION

SENATE COMMITTEE _____

Date March 20, 1987 HOUSE BILL Bill No. 300 Time _____

NAME	YES	NO
SENATOR JACK HAFHEY	X	
SENATOR WILLIAM FARRELL	X	
SENATOR LES HIRSCH	X	
SENATOR JOHN ANDERSON	X	
SENATOR ETHEL HARDING		X
SENATOR ELEANOR VAUGHN		X
SENATOR SAM HOFMAN	X	
SENATOR HUBERT ABRAMS	X	
SENATOR TOM RASMUSSEN	X	
SENATOR J. D. LYNCH		X

Carol Duval
Secretary

Senator Jack Haffey
Chairman

Motion: MOTION BY SENATOR FARRELL THAT HOUSE BILL 300 BE CONCURRED
IN AS AMENDED. Motion carried 7-3.